CSMcKee INVESTMENT MANAGERS

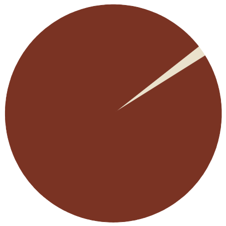
Beaver County Employees' Retirement Fund - Equity

Account Statement - at 6/30/2016 90501

Portfolio Summary

	QTD 3/31/16 - 6/30/16	YTD 12/31/15 - 6/30/16
Beginning market value	$45,834,069	$46,381,268
Net additions and disbursements	4,571	8,196
Investment income	218,486	433,790
Portfolio appreciation / depreciation	97,582	-668,546
Ending market value	***$46,154,708***	***$46,154,708***

Allocation



Actual

	Actual	Target	Diff
Large-Cap Core Equity	***98.2%***	*100.0%*	*(-1.8%)*
Cash	***1.8%***	*0.0%*	*+1.8%*

Performance

*(2/4/1983)**

	QTD	YTD	1 yr	3 yr	5 yr	15 yr
Total Equities	**0.69%**	**-0.50%**	**-3.93%**	**8.68%**	**9.31%**	**7.61%**
Blend Index	*2.46%*	*3.84%*	*3.99%*	*11.64%*	*12.09%*	*6.62%*

Benchmark History

Total Equities Blend Index

05/06/2009	SP500 100%
08/08/2002	R3000 100%

Periods greater than 1 year are annualized

** Performance Start Date*

CS McKee INVESTMENT MANAGERS

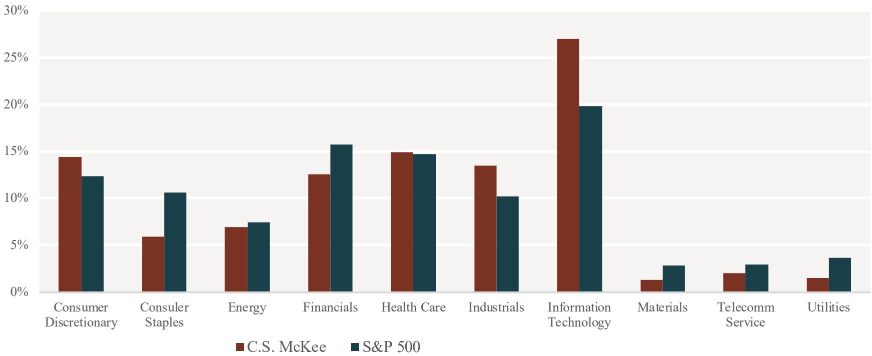
Large-Cap Core Equity

Portfolio Characteristics – at June 30, 2016

Benchmark Comparisons

	C.S. McKee	*S&P 500*	*Variance*
Number of Holdings	**48**	505	-457
Weighted Average Capitalization ($Mil)	**127,039**	129,445	-2,406
Mean Capitalization ($Mil)	**99,451**	37,794	61,657
Median Capitalization ($Mil)	**57,708**	18,128	39,580
Yield (%)	**1.93**	2.15	-0.22
Beta (Volatility)	**1.07**	1.00	0.07
R-Squared (Risk due to Market)	**0.96**	1.00	-0.04
5-Year Standard Deviation (Variability)	**13.55**	12.00	1.55
Price-to-Book	**2.63**	2.88	-0.25
Turnover (Trailing 12 Months)	**14.6**		
Price-to-Earnings Ratios:			
Trailing 12-Month P/E Ratio	**18.9**	19.5	-0.6
2016 Forecast P/E Ratio	**17.1**	17.9	-0.8
2017 Forecast P/E Ratio	**14.8**	15.7	-0.9
EPS Growth - Next 5 Years (%)	**12.3**	11.0	1.3

Sector Allocation (GICS)



Best & Worst Contributors to Performance * / Top Holdings / Transactions

Top 5 Contributors	*% Contribution*	*% of Portfolio*
Express Scripts	0.32	*3.41*
EOG Resources	0.27	*2.05*
MEDNAX	0.26	*2.02*
AT&T	0.21	*1.96*
Monsanto	0.20	*1.27*

Btm 5 Contributors	*% Contribution*	*% of Portfolio*
Apple	-0.47	*4.70*
BorgWarner	-0.36	*1.19*
Microsoft	-0.29	*4.17*
Alphabet (GOOGL)	-0.20	*2.36*
Alphabet (GOOG)	-0.17	*2.32*

Top 10 Holdings		*% of Portfolio*
Apple	AAPL	*4.70*
Alphabet-GOOG/GOOGL	GOOG	*4.68*
Microsoft	MSFT	*4.17*
Honeywell	HON	*3.61*
Express Scripts	ESRX	*3.41*
Intel	INTC	*3.24*
Walt Disney	DIS	*3.22*
Walgreens	WVA	*3.12*
Celgene	CELG	*2.87*
Wal-Mart Stores	WMT	*2.61*

Transactions

Buys — *New:* Humana (HUM)
Add: Apple (AAPL); Walgreens (WBA)

Sales — *Full:* Western Digital (WDC)
Trim: MEDNAX (MD)

Market Capitalization

	C.S. McKee Stocks	*C.S. McKee* % of Portfolio	*S&P 500* Stocks	*S&P 500* % of Portfolio
Less than $5 Billion	**1**	***1.1***	23	*0.4*
$5 to $10 Billion	**4**	***7.9***	100	*4.1*
$10 to $25 Billion	**9**	***13.2***	191	*16.1*
$25 to $50 Billion	**8**	***14.5***	101	*17.9*
Over $50 Billion	**26**	***63.3***	90	*61.5*
Total	**48**	***100.0***	505	*100.0*

The above information is shown as supplemental information and complements the composite disclosure presentation. Please see full disclosure information at the end of this presentation.

Model accounts are used to produce characteristics and performance attribution for the C. S. McKee products. Adjustments are made to account for timing differences in the transactions and to balance to the actual time-weighted composite figure. Past security contributions to performance are not indicative of future results and client results may vary significantly.

** For information on the contribution calculation methodology and a list of every holding's contribution to the overall account's performance during the measurement period, please contact C. S. McKee at 412-566-1234.*

Large-Cap Core Equity, *Gross of Fees*

Performance Attribution – Quarter-to-Date, at June 30, 2016

	C.S. McKee Sector Return	S&P 500 Sector Return	C.S. McKee Weighting*	S&P 500 Weighting*	Stock Variance	Sector Variance	Total
Consumer Discretionary	-4.51	*-0.90*	14.47	*12.85*	-0.59	-0.05	**-0.64**
Consumer Staples	3.09	*4.63*	5.25	*10.32*	-0.06	-0.09	**-0.15**
Energy	9.39	*11.62*	6.60	*7.12*	-0.14	-0.05	**-0.19**
Financials	1.41	*2.12*	12.74	*15.93*	-0.08	0.00	**-0.08**
Health Care	3.12	*6.26*	14.34	*14.63*	-0.47	-0.02	**-0.49**
Industrials	3.64	*1.40*	13.14	*10.12*	0.29	-0.03	**0.26**
Information Technology	-3.09	*-2.85*	27.26	*20.03*	-0.08	-0.41	**-0.49**
Materials	18.59	*3.73*	1.22	*2.89*	0.16	-0.03	**0.13**
Telecommunication Services	11.68	*7.06*	1.80	*2.71*	0.08	-0.04	**0.04**
Utilities	-0.21	*6.79*	1.47	*3.40*	-0.20	-0.09	**-0.29**
Cash	0.01	*0.00*	1.71	*0.00*	0.00	-0.04	**-0.04**
Total Returns / Variances	**0.52**	***2.46***	**100.00**	***100.00***	**-1.09**	**-0.85**	**-1.94**

The above information is shown as supplemental information and complements the composite disclosure presentation. Please see full disclosure information at the end of this presentation.

* *Average daily weights during the time period presented using a GICS-based classification, but adjusted in limited instances. For detail on the adjustments, please contact helpdesk@csmckee.com.*

CSMcKee INVESTMENT MANAGERS

Large-Cap Core Equity, *Gross of Fees*

Performance Attribution – Year-to-Date, at June 30, 2016

	C.S. McKee Sector Return	S&P 500 Sector Return	C.S. McKee Weighting*	S&P 500 Weighting*	Stock Variance	Sector Variance	Total
Consumer Discretionary	-1.40	*0.50*	14.28	*12.91*	-0.32	-0.05	**-0.37**
Consumer Staples	8.65	*10.46*	5.16	*10.43*	-0.08	-0.29	**-0.37**
Energy	2.95	*16.10*	6.49	*6.88*	-0.81	-0.05	**-0.86**
Financials	-7.06	*-3.09*	12.74	*15.91*	-0.54	0.20	**-0.34**
Health Care	-10.58	*0.42*	14.55	*14.71*	-1.82	-0.01	**-1.83**
Industrials	10.38	*6.46*	12.87	*10.08*	0.47	0.07	**0.54**
Information Technology	-1.21	*-0.20*	27.81	*20.18*	-0.38	-0.27	**-0.65**
Materials	6.21	*7.48*	1.20	*2.82*	-0.01	-0.07	**-0.08**
Telecommunication Services	28.93	*24.85*	1.78	*2.71*	0.05	-0.17	**-0.12**
Utilities	22.70	*23.43*	1.45	*3.37*	-0.01	-0.33	**-0.34**
Cash	0.01	*0.00*	1.67	*0.00*	0.00	-0.06	**-0.06**
Total Returns / Variances	**-0.64**	***3.84***	**100.00**	***100.00***	**-3.45**	**-1.03**	**-4.48**

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Large-Cap Core Equity, Second Quarter, 2016

The C.S. McKee Large Cap Core Equity composite's return of 0.52% underperformed the S&P 500's return of 2.46% by 194 basis points in the quarter. The underperformance is attributed to both stock selection and sector allocation as stocks with bond like characteristics price off record low interest rates.

- ***What worked for the strategy over the quarter?***

A positive note in the portfolio came from the Industrials sector which contributed 26 basis points to relative performance. Shares of industrial conglomerate, Dover Corp., rose 8.4% as rebounding oil prices drove investors back into this stock. The stock struggled in 2015 as energy prices declined and is now recovering in tandem with the increases. Interestingly, only 21% of the company's revenue is leveraged to oil prices so it appears this would be yet another example of macro-trends overriding company fundamentals. The stock added 8 basis points to performance.

- ***What didn't work for the strategy over the quarter?***

Headwinds in the quarter came primarily from the Consumer Discretionary and Health Care sectors. The two combined to detract 113 basis points from performance. Within the Consumer Discretionary sector, shares of automotive systems provider, BorgWarner, fell nearly 23% in the quarter on concerns over a slowdown in European growth. The underlying theme keeping us in the stock is the continued push, both domestically and overseas, to increase fuel efficiency and decrease emissions. Their systems are instrumental in accomplishing both goals. The stock detracted 33 basis points from relative performance.

Within the Health Care sector, bio-pharmaceutical firm Gilead Sciences saw its shares fall by 8.7% in the quarter as investors expressed concerns over pricing pressure in the industry. The company has the premier franchise in in both HIV and Hepatitis C treatments, a strong balance sheet and a pipeline drug representing a potential $10 billion opportunity. All three factors we feel warrant holding this stock for the long-term. The stock cost the portfolio 19 basis points. Abbott Laboratories cost the portfolio16 basis points after the stock fell 5.5% in the second quarter. Investors are tentative about this stock as the company works through the process of completing two major acquisitions.

Finally, our overweight to the Technology sector cost the portfolio 41 basis points as Tech was the worst performing sector in the index. Technology continues to screen as the most attractive sector in terms of relative value and our overweight position remains in place.

- ***For the first half of the year:***

The C.S. McKee Large Cap Core Equity composite's return of -0.64% underperformed the S&P 500's return of 3.84% by 448 basis points. As mentioned above, the Healthcare sector was the primary laggard, costing the portfolio 183 basis points. Celgene, a developer of cancer treatment therapies, saw its shares fall 17.6% in the first six months of the year as investors gave more weight to the future beyond the company's four blockbuster drugs. With more than 20 candidate drugs in various clinical research stages, we continue to believe in management's ability to wisely invest R&D dollars. The stock cost the portfolio 52 basis points. Pharmacy Benefit Manager, Express Scripts, had its shares reverse by 13% as news flow surrounding pending contract renewals has weighed on the stock. The stock cost the portfolio 50 basis points.

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Sector Positions

⬆ ***Overweight Consumer Discretionary:*** *Historically low energy prices will put money back into consumers' pockets that will in-turn be spent (i.e. put back into the economy).*

⇩ ***Underweight Consumer Staples:*** *We believe the sector is overvalued given the low growth expectations relative to valuations.*

⇩ ***Underweight Energy:*** *Even though we remain slightly underweight the sector, our overweight to Exploration and Production companies should allow us to participate on the upside if oil prices continue to rise.*

⇩ ***Underweight Financials:*** *Regulatory burdens outweigh benefits from the inevitable rising of interest rates.*

⬆ ***Overweight Info Tech:*** *The most attractive sector in terms of relative value.*

⇔ ***Equal-weight Health Care:*** *Look for health care services companies and established biotech companies to outperform large pharmaceutical drug companies.*

⬆ ***Overweight Industrials:*** *After years of subpar investment, corporate capex should accelerate, as companies need to expand capacity (Industrials and IT are typically the biggest beneficiaries).*

⇩ ***Underweight Materials:*** *We have not seen enough evidence to change our stance on the materials sector. The recent rebound in prices, while welcome, may prove to be short-lived given global economic weakness and a rising dollar.*

⇩ ***Underweight Utilities:*** *Trading at valuations well above historical norms.*

⇩ ***Underweight Telecomm:*** *We will remain underweight, as low growth expectations make this interest rate sensitive sector unattractive.*

Large-Cap Core Equity, Second Quarter, 2016

Stock selection in the Energy sector cost the portfolio 81 basis points. The majority of this underperformance was the direct result of the 25% decline in Marathon Petroleum, which detracted 61 basis points from performance. After performing strongly in 2015, since mid-February crude oil prices have risen and refiners' margins have not managed to keep pace. We still consider this holding attractive as its balanced exposure to retail, refining and infrastructure should allow it to outperform during periods of volatile crude oil prices.

- ***How is the portfolio positioned?***

A fifth of developed world government debt trades at negative yields. For the 40 years pre-2007 U.S. Government debt investors demanded roughly 200bp of return over inflation, which in our opinion is a reasonable level of compensation for the associated risk. Even if demographics and global growth deterioration call for a reduction to the 150bp level, a 10 year yield of 3.5% makes sense to us given the Fed's resolve to raising and maintaining inflation at the targeted 2% level. It is irrational that investors are willing to pay the government for the privilege of holding their money on a real basis.

Given this backdrop, it is not surprising that the best performing sectors have been the high-yielding telecom and utilities sectors, up 25% and 23% respectively year-to-date with consumer staples also outperforming (up 10% this year) vs. the S&P 500's return of 3.84%. These sectors continue to screen as extremely overvalued in our quantitative model, as the current, low interest rate environment has made near-term cash flows (dividend yield) more valuable and the growth in cash flows over time less so. Our underweight to these sectors has hampered performance year-to-date. We continue to believe that the value of a stock is the discounted value of a company's future cash flow streams and our strategy of buying the expected growth of those cash flows at an attractive price will add value over time. Thus, we are maintaining our overweight positions in higher growth sectors such as consumer discretionary, technology, and industrials and underweight positions in low volatility and low growth sectors, including consumer staples, telecom, and utilities.

***The third estimate of first quarter GDP** showed that the US economy expanded at 1.1% - significantly better than the advanced reading of 0.5% published in late April. Recent reports from the Atlanta Fed's GDPNow and the NY Fed's Nowcast show second quarter growth between 2.1% and 2.4%. Personal Consumption Expenditures were the largest contributor to 1Q growth contributing 1.02% to the percent change in overall growth. We expect expenditures to grow as consumers benefit from improving labor markets, relatively low energy prices, and continued low interest rates.*

***Weaker non-farm payroll reports** for the three months show a slow down in non-farm payroll growth from a warm first quarter. Despite June's strong reading, May caused concern among FOMC members that labor market strength was waning. Planned summer rate hikes were quickly shelved following these reports and the surprise vote for the UK to exit the EU. June's rebound of +287K jobs allayed fears of employment deterioration, but wage growth of only 2.6% will keep the pressure off of the Fed from hiking until at least later this year.*

***Global interest rates** continued to decline towards historic lows with $12 trillion of sovereign yielding below 0%. German 10-year Bunds fell into negative territory to an all-time low of -0.186%, concomitantly dragging US yields lower towards their all-time lows near 1.38%. The relative attractiveness of US yields versus other safe havens, such as Japan, Germany, and Switzerland will keep foreign demand high for treasuries.*

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Consumer Strength, Not Brexit, Will Drive US Economy

The UK's vote to exit the European Union surprised many, as the betting odds favored a 'Remain' win in the days leading up to the referendum. Markets reacted negatively to the result sending global equity markets and bond yields tumbling. In the subsequent hours following the referendum, central banks, including the Bank of England, Federal Reserve, and the ECB, pledged to step up support, if needed, to soothe the market's angst regarding tighter financial conditions. The current consensus opinion forecasts that the UK economy will now experience a mild recession over the next 24 months, while continental Europe will have slightly lower growth projections. Initial market reactions to the negative effects of Brexit foreshadowed, perhaps, another Lehman Brothers type event, with US 10-year treasury yields falling to their all-time low and German 10-year Bunds turning deeper into negative yielding territory. Uncertainty levels, as measured by the Baker, Bloom, and Davis Economic Policy Uncertainty Index, spiked to levels near the 2011 European crisis and the 2008 collapse of Lehman Brothers. From our perspective, the impact of Brexit is more akin to a drawn-out divorce battle that weighs on the financial health of both sides, whereas the consequences of the Lehman Brothers bank-run posed a large and immediate fallout to the global economy. The outcome of the UK exit negotiations over the next year has the potential to spur secession talks in other countries such as Italy and Spain. If the damage to the UK economy from exiting the EU proves less harmful than anticipated, the impetus for In or Out referendums may grow in countries questioning the authority of Brussels. Further referendums regarding membership across the EU will add to market anxiety regarding the long-term future of the Union, which could lead to slower than expected growth and other unseen detrimental effects. The exit of the relatively strong UK weakens the European Union, the exit of Portugal, Italy, Greece, or Spain would strengthen the EU given their deficits.

While there certainly will be ill effects on the economies of the UK and the closely linked European countries, the severity of the negative effects will be dependent on future negotiations of trade agreements between the UK and EU and will likely be contained to the region. It is possible that the UK might benefit from an ability to negotiate separate agreements with old nations of the British Commonwealth such as Australia and India – something they were handcuffed from doing through the EU. All of these negotiations, plus the resolution of any separation discussions between Ireland, Scotland and England - will affect the future path for Europe, but are unlikely to upset the expansion in the United States and the improving health of the US consumer. Continued elevated levels of uncertainty have the potential to weigh on confidence over the long run, but as of now, the adverse impacts on the US economy remain low.

Trade between the US and UK in 2015 totaled over $115 billion, making the UK the seventh largest trading partner for the US. The weakening of the British Pound from $1.50 to $1.30 will likely lead to a readjustment of the nearly balanced trade relationship, as US exports have become more expensive to purchase for UK residents. Continental European economies will also be a beneficiary of a weakening euro at the expense of US exporters. While the strengthening of the US dollar versus our trade partners will likely lead to a worsening of the overall US trade deficit, slowing export growth will have a minimal impact on overall US GDP growth as consumption far outweighs the contributions from trading.

While talk of 'Brexit' and its potential impact has dominated the headlines over the past quarter, the US consumer more importantly, has continued to strengthen as the unemployment rate dipped to 4.9% and wages expanded 2.5% annually. Personal Consumption Expenditures, which account for nearly 70% of US GDP, grew at 3.1% in 2015 and will look to grow further in 2016 as energy prices remain relatively low and average hourly earnings grow around 2.5%. In contrast, total trade with the UK makes up less than 1% of overall US GDP. Rising Consumer Confidence, as measured by the Conference Board, has nearly regained pre-financial crisis levels at a reading of 98.0 in June, as individuals feel more optimistic about their financial situation. Consumers will also continue to benefit from historically low interest rates as the relative attractiveness of US yields versus other sovereign safe havens remains high, effectively limiting the amount rates can rise. Low interest rates should also be supportive of continued expansion in the housing market making mortgages more affordable and allowing current borrowers to refinance.

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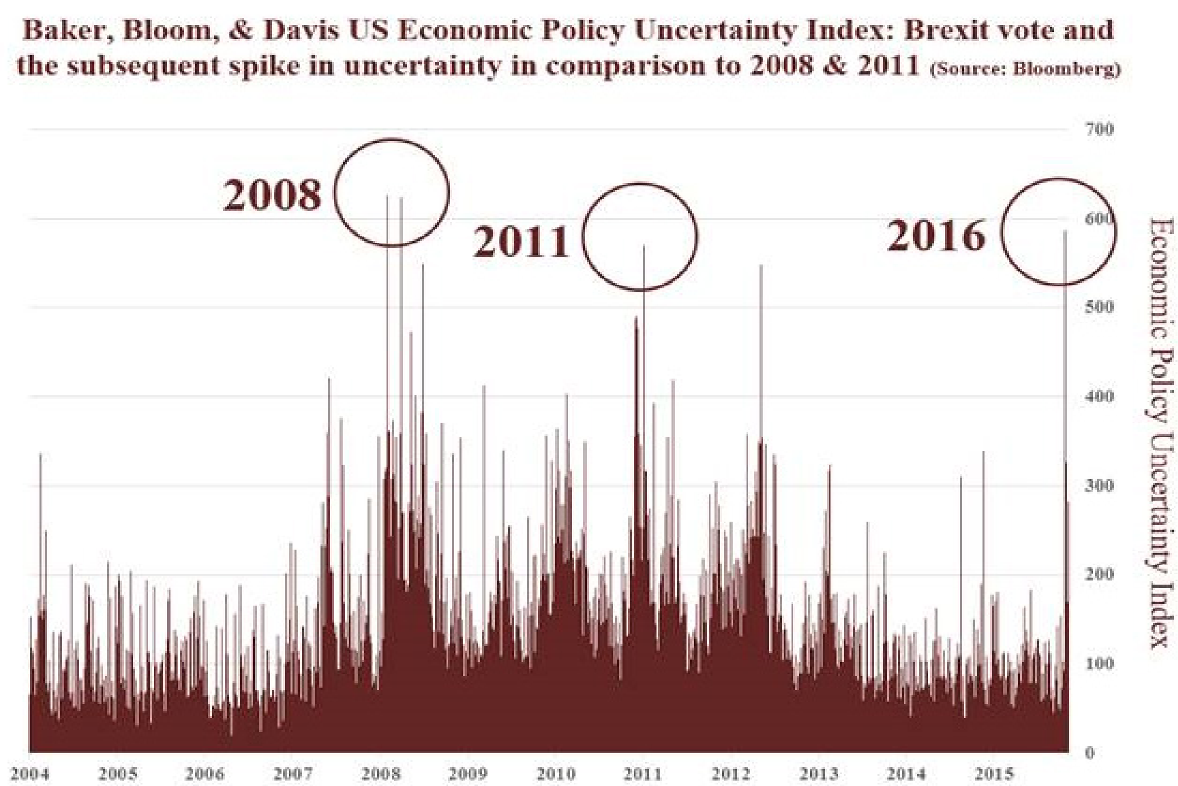
Core PCE inflation grew *by 1.6% on an annual basis in both April and May. Inflationary pressures remain benign and well below the Fed's 2.0% target, which will allow the FOMC to remain cautious regarding future rate hikes as they assess the labor market and the UK exit negotiations. Services were the main driver of inflation over the first half of 2016, while core goods prices declined. Owner's-equivalent-rent, which makes up nearly 13% of the core index, grew at an annualized rate of 3.3% in May and continues to be the main driver of services inflation.*

Baker, Bloom, & Davis US Economic Policy Uncertainty Index: Brexit vote and the subsequent spike in uncertainty in comparison to 2008 & 2011



Upcoming divorce negotiations between the UK and the EU have the possibility to add further uncertainty to the market and will set the course for the future of the EU, as discussed in our 'Five Minutes with McKee' commentary. Trade relations between the US and the UK will change slightly to reflect the decline in value of the GBP and the independent status of the UK. Congress has already taken the initial steps to keep current trade agreements in place by proposing the United Kingdom Trade Continuity Act, which looks to mitigate any disruptions to the status quo. Tightening financial conditions, heightened uncertainty, and a stronger US dollar will pose the largest threats to financial markets and the US economy. An insulated US consumer, however, will likely withstand these ill effects and continue to be the main driver of the US economy over the long-term.

Portfolio Summary - at 6/30/2016

90501

	6/30/2016 Market Value	6/30/2016 Weight	3/31/2016 Market Value	3/31/2016 Weight	Weight Change
Large-Cap Core Equity	**$46,154,707.66**	**100.00**	$45,834,068.92	100.00	**0.00**
Cash	830,777.65	1.80	478,079.08	1.04	
Consumer Discretionary	6,547,535.00	14.19	6,873,896.50	15.00	
Consumer Staples	2,653,728.00	5.75	2,334,543.00	5.09	
Energy	3,147,173.50	6.82	2,896,502.00	6.32	
Financials	5,704,360.00	12.36	5,658,435.00	12.35	
Health Care	6,753,157.40	14.63	6,366,100.87	13.89	
Industrials	6,119,653.50	13.26	5,944,871.00	12.97	
Information Technology	12,221,945.40	26.48	13,270,016.30	28.95	
Materials	579,096.00	1.25	491,344.00	1.07	
Telecommunication Services	907,453.21	1.97	822,609.17	1.79	
Utilities	689,828.00	1.49	697,672.00	1.52	
Total Portfolio	**$46,154,707.66**		**$45,834,068.92**		

CSMcKee INVESTMENT MANAGERS

Beaver County Employees' Retirement Fund - Equity

Position Summary - at 6/30/2016

90501

		% of Product	% of Portfolio			% of Product	% of Portfolio
Large-Cap Core Equity							
APPLE INC	AAPL	4.71	4.71	MICROSOFT CORP	MSFT	4.18	4.18
HONEYWELL INTL INC	HON	3.60	3.60	EXPRESS SCRIPTS HLDG	ESRX	3.42	3.42
INTEL CORP	INTC	3.24	3.24	WALT DISNEY CO	DIS	3.21	3.21
WALGREENS BOOTS ALNC	WBA	3.14	3.14	CELGENE CORP	CELG	2.86	2.86
WAL MART STORES INC	WMT	2.61	2.61	DICKS SPORTING GOODS	DKS	2.61	2.61
GENERAL ELECTRIC CO	GE	2.46	2.46	EMC CORP MASS	EMC	2.42	2.42
ALPHABET INC	GOOGL	2.36	2.36	STARBUCKS CORP	SBUX	2.35	2.35
ALPHABET INC	GOOG	2.33	2.33	CISCO SYSTEMS INC	CSCO	2.27	2.27
JPMORGAN CHASE & CO	JPM	2.05	2.05	EOG RESOURCES INC	EOG	2.04	2.04
MEDNAX INC	MD	2.02	2.02	AMERN INTL GROUP INC	AIG	2.01	2.01
AT&T INC	T	1.97	1.97	TIME WARNER INC	TWX	1.93	1.93
F5 NETWORKS INC	FFIV	1.92	1.92	3M COMPANY	MMM	1.86	1.86
GILEAD SCIENCES INC	GILD	1.81	1.81	WELLS FARGO & CO	WFC	1.74	1.74
PRICE T ROWE GRP	TROW	1.74	1.74	BANK OF NEW YORK MEL	BK	1.73	1.73
DISCOVER FINL SVCS	DFS	1.71	1.71	ORACLE CORP	ORCL	1.65	1.65
ABBOTT LABS	ABT	1.63	1.63	DEERE & CO	DE	1.50	1.50
PUBLIC SVC ENTERPR	PEG	1.49	1.49	CENTENE CORP DEL	CNC	1.48	1.48
EXPEDIA INC	EXPE	1.47	1.47	MARRIOTT INTL INC	MAR	1.43	1.43
HUMANA INC	HUM	1.41	1.41	NORFOLK SOUTHERN	NSC	1.40	1.40
PAYPAL HLDGS INC	PYPL	1.39	1.39	GOLDMAN SACHS GROUP	GS	1.38	1.38
MARATHON PETROLEUM	MPC	1.33	1.33	DOVER CORP	DOV	1.31	1.31
CHEVRON CORP	CVX	1.28	1.28	MONSANTO CO	MON	1.25	1.25
BORG WARNER INC	BWA	1.19	1.19	OCCIDENTAL PETE CORP	OXY	1.12	1.12
KENNAMETAL INC	KMT	1.12	1.12	BAKER HUGHES INC	BHI	1.04	1.04
CASH		1.80	1.80				

Position Summary - at 6/30/2016

90501

	% of Product	% of Portfolio		% of Product	% of Portfolio
Large-Cap Core Equity					
				100.00	**100.00**

CSMcKee INVESTMENT MANAGERS

Beaver County Employees' Retirement Fund - Equity

Transactions Summary - April 1, 2016 through June 30, 2016

90501

		Comments	% of Product	Proceeds/ Distributions	Gain/Loss
Additions / Disbursements					
Cash Deposit				5,827	
Cash Withdrawal				-1,255	
Investment Income					
Dividend				218,018	
Interest				468	
Purchases / Principal Payups					
Domestic Equity					
WALGREENS BOOTS ALNC	WBA	*add*	0.55	-248,138	
HUMANA INC	HUM	*new*	1.42	-663,185	
APPLE INC	AAPL	*add*	0.98	-441,518	
Sales / Principal Paydowns / Maturities					
Domestic Equity					
MEDNAX INC	MD	*trim*	1.02	475,463	58,231
WESTERN DIGITAL CORP	WDC	*sell all*	0.26	116,019	-566,879
Corporate Actions / Other Transactions					
SANDISK CORP	SNDK		3.50	1,573,898	891,000
WESTERN DIGITAL CORP	WDC		1.52	-682,898	

Five Minutes with C.S. McKee

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Brexit decision aftermath

LARGE STAKES, MANY UNCERTAINTIES

The UK's vote to leave the European Union seems like a hike with a group, at night, in a forest. At a fork in the path, uncertainty reigns as the group chooses a way many of their number think wrong. The decision has consequences.

The Brexit vote was a triumph for those who view it as a blow to the bureaucracy imposing rules from Brussels affecting British sovereignty (immigration) and the British economy. Assuming that the UK follows through on the referendum, much remains uncertain.

Economic Risks

We foresee a number of macro-economic risks. These include an inadequately financed UK current account deficit. Foreign capital flow—both portfolio and direct investment—will likely slow. Without adequate financing, the UK will have to draw upon reserves. Investors are already anticipating that, beating a path to the exit. Hence the weakness in the pound.

The Bank of England (BOE) has highlighted the risk to commercial real estate. With strong inflows of overseas capital, valuations are strained in some segments, making the market vulnerable to out-sized declines.

Some businesses face relocation decisions. Vodafone, the world's second largest telecom company, and Diageo, a global spirits maker, have hinted that they are considering a move from London. That would affect both employees and UK tax revenue. If relocation also signals exits from the UK stock market, the value and importance of one of Europe's leading exchanges would be diminished. Given these and other economic risks, the BOE says, "the current outlook for UK financial stability is challenging."

Political Risks

If little from the political perspective seems clear about the chosen path, the challenges are certain.

For starters, the UK has perhaps lost the upper hand with Europe. In February, amid much fanfare, outgoing Prime Minister David Cameron secured a modest negotiated deal in which the EU acceded to the UK's demands on workers' benefits and bailout policy. Now, after the Brexit vote, EU leaders seem eager to negotiate the "Leave" quickly, wary that other EU states might seek similar concessions. The UK position vis-à-vis the EU has gone from strength to uncertainty.

What ifs: Scotland . . . and maybe Northern Ireland?

And once more the dissolution of the UK as we know it is a possibility. Scottish leaders, favoring the position in the EU, intend to push for an independence referendum. This is both a political and an economic risk to the UK. Politically, the UK without Scotland would be a weakened power, perhaps completing its century-long demise as a global hegemon. The makeup of the UK Parliament, where the Scottish National Party is the third largest, would face change.

Economically, while Scotland's 8% portion of the UK's GDP may seem modest, consider that in 2009 the Great Recession in the US entailed a loss of only 2.8% of GDP for the year. A divided UK could experience a GDP decline nearly three times that amount in fewer than three years. Furthermore, the rest of the UK enjoys a trade surplus with Scotland of £17 billion per year. A portion of that surplus could be lost to other EU nations. A decline in UK GDP is a significant hazard demanding deft navigation.

Market Signals and Leadership

Businesses and political leaders come and go. Why the extreme reaction in the financial markets? Technology permits quick and decisive responses to unexpected events—and the Brexit vote was unexpected. The initial response, to invoke the hiking analogy again, signaled that many in the group (market participants) believed Brexit was a wrong turn and those who chose this path are unsure where they are going.

A crisis in leadership

Indeed, the UK experienced a crisis in leadership unlike any in recent memory. Two leaders of major parties resigned. Another leader refused to resign, though many of his deputies want him out. And one of the main advocates for leaving the EU, Boris Johnson, removed himself from consideration for Prime Minister. Instead, Theresa May, who had been on the "Remain" side of the Brexit issue, is the new PM. Potential leaders ready to steer the UK out of the EU are few. Given the turmoil, the financial markets' volatile (and confusing) response is unsurprising.

Many Questions

More volatility is likely, and it might well be justified. Numerous economic and political questions remain. How will Britain fare in its trade negotiations with Europe, and can it negotiate trade agreements elsewhere? What form of immigration policy will it adopt, and what are the implications for the expatriate workforce and labor supply in general? How would its energy policy evolve with the potential loss of North Sea oil and gas reserves to a devolved Scotland? The answers to these and other questions carry major implications for the future of the UK economy.

With an independent Scotland (and potentially Northern Ireland), the UK would be a diminished entity. Will the UK exercise the same influence in global affairs in 20 years as it has in the post-war era? What would be the effect on the pound as a global currency? Can Britain continue to be a voice in European affairs? Or might it be limited to an off-stage presence should the continent remain otherwise consolidated and prosper? The answer to these questions will affect Britain's standing and influence in the world.

One thing was clear early on: investors voted with their feet. A post-referendum devaluation of the British pound has been quick. Financial markets are correctly discounting several scenarios. The BOE stands ready to intervene with interest rate cuts should the economy slide towards recession. Should rates in the UK approach 0%, it stands to reason that the US dollar will appreciate relative to the pound, given the attractive interest-rate differential. A collapse in longer-term gilt yields indicates a flight to quality and hints at the potential for a BOE intervention. Finally, the risk remains that foreign nationals could divest UK assets.

Conflicting Market Signals

Compounding uncertainty are confusing signals from the financial markets. To believe the bond markets, the globe is facing a probable economic downturn with an accompanying level of deflation. Yet since the Brexit vote gold has appreciated markedly, traditionally a signal of the onset of inflation. While most commodities were selling off, given the stronger dollar, precious metals did not follow their historical pattern.

Bonds reflect the confusion. If the loss of Britain signals that the EU is headed for a breakup, then the credit-worthiness of the peripheral markets, notably Italy and Spain, must be questioned. But as of this writing, Italian 7-year yields are lower than they were before the Brexit vote. And the UK's credit rating has been downgraded, yet its bonds have increased substantially in value.

Imagine starting down the uncertain path with half the group questioning the route; the trail map shows no details; and a short distance into the trek all the leaders, so sure of their course just moments ago, decide to move to the rear or leave the group. The anxiety felt by many in Britain is understandable.

A monumental shift

We can now recognize that the Brexit vote was not a short detour for Britain. It was a monumental shift. Nearly half a century after Britain joined the European Economic Community (predecessor to the EU), the UK elected to change paths. The vote was close, but not so in Scotland, providing impetus to divide the UK. Markets are witnessing a radical change in direction, and the future of the UK in its current form is not clear. Fifty-two percent of the UK electorate chose the Brexit path. The success or failure of the UK and the EU to manage their respective destinies will determine the merits of that choice.

by Michael J. Donnelly, Vice President and Portfolio Manager, Equity